

EXHIBIT 1

Barclays Capital

Product Control

FI Credit Products - Price Testing Policy



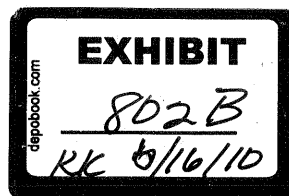
Fixed Income Credit Products

Price Testing Policy

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Introduction

Price Testing and Verification

The purpose of this document is to outline the methodology used in verifying the levels that the Front Office uses in marking to market its positions Credit products. This document is written with the assumption that the front office adheres to the firm valuations policy as set forth by compliance. This policy covers Fixed Income Credit Derivatives, Loans and Securitized Products (ABS).

Fixed Income Credit Derivatives

Fixed Income Credit (FI Credit), under Eric Bommensath, acts as a market maker in single-name Credit default swaps and index products by providing two-way liquidity in the underlying markets through bids and offers. In its structuring capacity, FI Credit provides more complex credit products to counterparties to either effectively manage their credit risk in their portfolios or to express views on traded credit risk in the market. The FI Credit area hedges their exposures either through the flow desks or other structured products. The business is located in 5 offices - New York, London, Hong Kong, Tokyo and Singapore - and offers all of these products globally.

Fixed Income Credit Flow- Products	
Single Name Credit Default Swaps (CDS)	All Locations
Index Products	All Locations
Nth to Default Baskets	All Locations
Options on Bonds, Default Swaps and Indices	All Locations
Collateralized Swap Obligations (CSO and CSO^2s)	All Locations
Negative Basis / Relative Value transactions	All Locations
Total Return Swaps	All Locations
Credit Linked Notes	All Locations
Risky Bonds	All Locations
Tranched Index Products	All Locations
Interest rate products used to manage FI Credit's exposure to interest rate and currency exposures (e.g. Interest Rate Swaps, Currency Swaps, Treasuries, and Futures).	All Locations

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Loans

The Loan Trading Desk acts as a proprietary trading desk for both Leveraged and Distressed Loans. These businesses are located in New York. Barclays also has TRS Loan/Bond businesses located in NY and London as well as Loans held by the CDO desk for securitization.

Loan - Products	
Total Return Swaps	NY and London
Leveraged Loan Trading	New York
Stressed Loan Trading	New York
CLO - Securitization	NY and London

Asset Back Securities

The ABS Desk (Asset Back Securities) acts as a market maker in Cash ABS, single name ABCDS products [originally referred to as Pay-As-You-Go Products (PAUG)] and ABX index products by providing two-way liquidity in the underlying markets through bids and offers. Secondary ABS also takes proprietary positions in these markets to express its views on the traded Credits.

The Principal Mortgage Trading Group (PMTG) is the former CDO desk. Desk originally warehoused ABS products used as collateral for securitized products. Over the second half of 2007, liquidity was drastically reduced and the desk was left holding numerous Structured ABS products on the books. The portfolio consists of Cash and Synthetic ABS products, ABS CDO tranches, SIV-Lite positions, as well as ABX Indices utilized for hedging. In addition, the desk managed the Lehman portfolio onto the Barclays books and records. In this capacity, the PMTG Desk continues to provide an array of structured and illiquid credit and abs products to counterparties.

ABS - Products	
Single Name ABS (Cash ABS)	New York
Single Name ABS Synthetic (ABCDs)	New York
Index Products (ABX)	New York
ABS CDO (Cash/Synthetic/Hybrid)	NY and London
ABX Index Tranche (TABX)	New York

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Credit Product Overview

Single Name Credit Default Swaps

Single name CDS are used to buy or sell default protection on single reference entity, typically a corporate entity. These products are traded at various tenors for a significant number of Credits. The bid - offer spread on these Credits is an appropriate measure of liquidity under normal market conditions.

Credit Linked Notes

CLNs are collateralized default swaps, whereby the buyer of protection receives the notional of the trade upfront at inception and pays a periodic coupon to the seller. If a default occurs, the buyer returns the recovery (market price of the underlying security post-default) to the seller. CLNs are price tested using the same methodology as CDS.

Full Index Products

FI Credit also makes markets in a family of indices consisting of baskets of abs, corporate and emerging market Credits segregated by industry sector. These are price tested at the index level using external quotes.

Tranched Index Products

These products allow investors to take views on set tranches of existing Full Indices. Buyers of protection are insulated from losses due to defaults until a specified threshold is reached.

Options

FI Credit makes markets on options on bonds, single name default swaps and Credit indices. Unlike single-name and index options that have set expiry dates on IMM roll dates, bond option expiry dates are decided upon by the buyer and seller.

Nth-to-Default Basket Swaps

The basket default swap model will be used to value Nth-to-default basket swaps (NTDs hereafter). In NTD products two parties agree on a basket of reference assets on which protection is either bought or sold. NTDs insulate the protection buyer from losses experienced on the Nth to default asset in the basket. The protection seller is exposed to losses only when N defaults occur in the basket and not earlier. The NTD is extinguished when the protection seller settles the default losses experienced by the buyer, if any, in the basket. For example, in a First to Default basket, the protection buyer is protected

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from the losses on the 1st reference Credit that defaults in the basket. The NTD is then settled and extinguished. The protection buyer, in return for the protection purchased, pays a periodic premium to the protection seller on specified dates until the earlier of maturity date or the extinguishment date of the contract.

NTD products are a convenient way to buy or sell leveraged exposure to Credits included in the basket. Typically, investment grade corporates are most commonly traded in NTD baskets. Investors in these products seek to express their views not just on the performance of Credits included in the baskets but also on default correlation among the reference entities.

Collateralized Synthetic Obligations (CSO)

The CSO model will be used to value partial capital structure Credit derivative trades. Unlike a single name CDS trade, in partial capital structure trades the protection seller agrees to insulate the protection buyer for losses arising from a pool of reference Credits only when they exceed a threshold amount X. This threshold is the lower attachment point in the portfolio. The seller's losses are capped by an upper threshold Y. In effect, the buyer of protection is protected from Y-X amount of losses arising from the portfolio. These contracts have a specified maturity and the protection buyer is required to pay the seller periodic premiums for protection purchased. Unlike NTDs, CSOs insulate the protection buyer for losses incurred between specified threshold limits and are not related to the number of defaults in the reference portfolio. In essence, the buyer is protected either partially or fully on losses incurred in the portfolio regardless of the number of defaults depending on the location of thresholds.

CSOs typically include a broader pool of assets in the portfolio and could include a variety of corporate Credits and asset-backed-securities. Key valuation parameters required to value CSOs are Credit spreads of reference entities, recovery rates, and default correlations.

Collateralized Synthetic Obligations (CSO²)

CSO²s (the parent or master) are a special case of CSOs, where the underlying reference Credits themselves are CSOs, referred to as baby CSOs. Each embedded baby CSO has a number of reference Credits and some of these Credits could be present in more than one baby CSO. The premium is paid on the parent CSO² and not on the babies. For the embedded CSOs, the losses within the protection tranches contribute to the cumulative loss of the parent CSO².

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Relative Value / Negative Basis Trades

Relative value transactions are largely motivated by differences in funding costs to execute a trade. In these transactions, the counterparty with a lower funding cost buys a cash asset (e.g. corporate bond, ABS, etc) and buys protection from the other counterparty until the asset matures. The carry generated by selling protection in the derivatives markets allows the seller of protection to achieve a synthetic long position in the asset at a cheaper funding rate than when the protection seller buys the asset directly from the cash markets. The protection buyer, on the other hand, earns a fraction of the carry generated by the difference in the asset coupons net of own funding costs and the premium paid to buy protection from the seller. The protection buyer does not carry the Credit risk on the asset in an economic sense since the buyer is protected either through price and / or rating downgrade triggers that enable the buyer to make collateral calls on the seller but is exposed to its own funding risks and the risk of prepayment on the asset that would erode the magnitude of the basis.

Key valuations issues relate to asset downgrade risk, prepayment risk, funding risk, and counterparty exposure. The details of these risks and how they are addressed in valuation are more fully described in the FI Credit Provision Methodology document.

Total Return Swaps

The Total Return Swaps represents little to no balance sheet risk. These are fully hedged Loan or corporate bonds where the risk is transferred to the counterparty. Price Testing reconciles marks to third party vendors to minimize counterparty risk.

LOAN Product Overview

Leveraged and Stressed Loans

The Loan Trading consists of two books, Leveraged Loan and Stress Loans. To date the portfolio primarily consists of investments in Term Loans.

CLO

Barclays also has loans in the Warehouse portfolios for securitization purposes (CLO). These are tested to highlight potential losses. If loans are not incorporated into a Warehouse, they will be captured within the price testing of the workout facility.

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ABS Product Overview

ABS Bonds

Asset-backed securities are bonds that are based on underlying pools of assets of similar types, duration and interest rates. ABS bonds general reference RMBS, CMO, Home Equity or Sub-prime Mortgages. The key data inputs that drive that valuation of ABS are spreads at the relevant weighted average life, prepayment speed, default rate and recovery rate.

Single Synthetic ABS – ABCDS

Synthetic ABS securities, originally referred to as Pay as you Go (PAUG) are now more commonly called ABCDS. An ABCDS is a Credit default swap on an RMBS bond, where the buyer pays periodic premium to the seller; in return the buyer receives principal shortfall and interest shortfall from the seller. The notional amount of the contract is adjusted as the underlying (1) amortizes, (2) prepays, (3) is written down, (4) defaults, or (5) as previous floating amount events are “reversed.” So instead of one contingent payment triggered by a Credit event, the ABCDS format involves two way payments throughout the life of the CDS contract. Therefore, these trigger events (“floating amount events”) may be reversed in subsequent periods.

The ABCDS product is currently concentrated in the Home Equity Loan market. Trading ABCDS allows a trader to take directions on specific tranches and express an opinion on Credit fundamentals in a particular ABS sector. It also allows traders to source tranches not readily available in the cash market.

ABCDs predominantly reference floating rate paper so it is therefore priced at spread over Libor +/- the CDS Basis. The key data inputs that drive that valuation of Synthetic ABS are similar to cash, that is : spreads at the relevant weighted average life, prepayment speed, default rate and recovery rate. ABCDS are now quoted on an upfront fee instead of spreads. The upfront fee can be converted into an estimated cash price using the following formula: $100 - \text{upfront fee} = \text{estimated cash level}$.

ABS Index Products (ABX)

The ABX.HE is an ABS CDS Index. It is designed to mirror the risk profile of the HEL ABS, but on a portfolio level. It allows investors the ability to express a macro view on the housing market as well as hedge systematic risk. MarkIt provides end of day closing prices for the indices.

ABS CDO

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ABS CDO is a structured Credit derivative giving exposure to a pool of underlying reference Credits (Cash/Synthetic/Hybrids) via a series of tranches with different Credit risk. ABS CDO Price Testing is based on the underlying collateral.

Tranched ABX Index Products

These products allow investors to take views on set tranches of the existing ABX Indices. Buyers of protection are insulated from losses due to defaults until a specified threshold is reached. Index trading is less active which has left this product highly illiquid.

Price Testing

Overview

Data used for verification can be classified as follows:

■ Internal prices and rates

Yield curves and FX rates for the products for which the Fixed Income Credit Flowbusiness and Securitized Products area are mandated to trade are sourced from market data environments for which the Interest Rate Derivatives desk sets on a daily basis. The desk is also mandated to trade Treasuries for which pricing information is also controlled by the IRD Product Control group.

Derivative Products

Trader prices for Credit Derivative products are price tested by the following:

- Delta Price Testing: The difference between the traders' and external spreads are applied to the risk grids (DV01) to measure the impact on the books.

	Portfolio		Issuer				Asset Sector	
	Corporate Asia		Hutchinson Whampoa Finance				Telecommunications	
Tenor	6-month	1-yr	2-yr	3-yr	4-yr	5-yr	7-yr	10-yr
Sprd-'01	0	(1)	(2)	(5)	(6)	266	6756	0
FI Credit Spreads	32	40	55	70	85	102	120	150
External Spreads	30	38	54	70	85	99	125	155
Difference	(2)	(2)	(1)	0	0	(3)	5	5
P&L Impact	0	2	2	0	0	(798)	33,780	0

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- This methodology covers the following products: CDS, CLN, and underlying for Options, FTD and CSO products.

Product Specific Testing

CDS/CLN

- The key data inputs that drive that valuation of CDS are Credit spreads at the relevant tenors, recovery rates (see Recovery Rate Testing) and yield curves (see Internal prices and rates).

NTD

- Key valuation parameters required to value NTDs are Credit spreads of reference entities, recovery rates and default correlations (pair wise or flat).

Synthetic Options

- For CDS Options and Index Options, price testing is performed on the spread DV01 (same as above) as well as Vega. The external source data for both components are taken from MarkIt Partners. The data that is provided by MarkIt is a consensus pricing. Barcap provides MarkIt with the desk's spread and vega marks and they in turn provide us with consensus levels which are used to determine variances based on spread and vega.

Corporate Index Tranches and CSO Products

- For Index Tranche pricing, internal tranche spreads are compared to external broker prices or MarkIt consensus pricing. Depending on timing (stale) and depth of contributors, interpolation may also be utilized. The difference between the trader's spreads and external spreads are applied to the Credit risk (CS01) to calculate variances.
- Correlation is tested based on trade level bucketed corr01 report from SDAPS. There are three major steps. 1. Collect tranche premium broker data either through desk or directly from sources (GFInet, Icap, CreditEx), make delta adjustments in index levels. 2. Calibrate correlation curves based on the adjusted market data and compare with the corresponding internal curves. 3. Calculate variance based on correlation difference and corr01 at the trade level, and report at aggregated level by underlying or by book or combined. Barclays also participates in the consensus pricing services offered by Markit Partners, although the results are not used directly for PT.

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Cash Securities

- For Corporate, Emerging Markets and Sovereign cash securities the valuations are performed by comparing to external broker/dealer prices as well as 3rd party independent pricing services. Sources include Markit Partners, Valuspread (Lombard), EJV (Reuters), ISMA and (in some cases) FTID.
- For ABS cash securities the valuations are performed by comparing to external broker/dealer prices. Sources include Markit Partners, FTID, Street Software (Bear Stearns) and Bloomberg. . When a cash price is not available, a cash flow analysis is performed utilizing Intex. Cash flow analysis requires spread, prepayment speed, default and severity as inputs. Generic spread levels from Bloomberg are based on a tranche's weighted average life (WAL). Specific deal assumptions such as historic CPR, CDR and severity are extracted from Intex. Unobserved or missing parameters are estimated using proxies or comparison to similar issues that are that have been obtained.

Synthetic ABS

- For ABCDS, valuations are performed by comparing to external broker/dealer prices. Sources include Markit Partners, FTID, Street Software (Bear Stearns), EJV and Bloomberg. . When a cash price is not available, a cash flow analysis is performed utilizing Intex. Cash flow analysis requires spread, prepayment speed, default and severity as inputs. Generic spread levels from Bloomberg are based on a tranche's weighted average life (WAL). Specific deal assumptions such as historic CPR, CDR and severity are extracted from Intex. Unobserved or missing parameters are estimated using proxies or comparisons to similar issues that are that have been obtained. For ABX.HE, Markit Partners provides levels.
- .

Loan Securities (HY / IG / TRS)

- For Loans the valuations are performed by comparing cash prices to external third party pricing vendors. Sources include Loan X (Markit) and SMI (LPC).
- If no external pricing data is available, a proxy based on industry, maturity, yield, rating and seniority may be applied.

Sources of Information

The following are the sources used to obtain spreads and other relevant information such as correlations, recoveries, bond prices.

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Securitized Derivative Asset Pricing System (SDAPS) is FI Credit's internal risk and valuation system. SDAPS houses all CDS inventories as well as market and trade data used in pricing and calculating risk for FI Credit products. SDAPS holds a portion of the Bond position but as of December 2007, a majority have been moved over to CDT.

Internal Data

- SDAPS Credit Derivatives and BOND inventory reports
For each respective business area a complete CDS and Bond Inventory report is run at month end for position review and verification.
- CDT BOND inventory reports
A CDT Flat file of the complete Inventory is automatically saved on a daily basis for each respective business area.
- SDAPS Sprd-01
Are used as a basis for calculating Sprd-01 variances on underlying Synthetic and cash positions within the groups portfolios.
- SDAPS Spiky Report Cor-01
The spiky report is used for Global Credit Indices and CSO correlation testing. The trade level details are used to capture region, book, correlation and Cor01 mapped to each Credit index
- SABS
For single name synthetic ABS and ABX Index, all internal data is captured in / extracted from SABS. The SABS database is used to house all internal information for the product.
- FOBO: Non-FI Credit and CDO NY / CDO LDN
For Non-FI Credit Books PCG Line proves PCG Price Testing a complete Front-Office-Back-Office reconciliation spreadsheet which is utilized to test the position and prices held on the firms books and records.

Completeness of data

- FI Credit – The Price Testing Database is reconciled back to SDAPs to ensure completeness as well as to Glacier.
- FI Credit Correlation, FI Credit Vega and FI Credit Index Tranche Delta Price Testing are reconciled and tested in a separate spreadsheets.
- Risk Finance positions and CS01 are reconciled back to SDAPs. The SDAPs data in the Price Testing spreadsheets is separately reconciled to the ledger via the operations and PCG FOBO processes.

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External Sources

- **Risky Bond Positions.**
 - Sources include Markit Partners, FTID, Bloomberg, EJV (Reuters) and ISMA.
 - Broker/Dealer quotes
- **Spread information (Synthetics only)**
 - Valuspread (Lombard)
 - Mark-It Partners
 - CMA (Parsed Dealer Runs)
 - Intra Dealer Brokers (GFI, Chapadelaine)
 - Other Broker Dealers (JPMorganChase)

In determining the appropriate spread information used to value and risks the FI Credit portfolios, currency and restructuring clause types are taken into account.

- **Correlation Testing**
 - Tranche correlation is tested using Markit Partners and broker quotes as well as interpolation where no outside data is available. Broker sources include GFI, CreditTrade and Creditex. Barclays also participates in the consensus pricing services offered by Markit Partners. Preference is to use broker data as it is a true month-end close. Markit data for correlation is captured prior to month-end. This can result in stale pricing if the market is volatile.
 - NTD correlation is reviewed using broker quotes as well as Markit data.
 - Markit sends several templates with various combinations of underlying single name issuers and their respective spread curves that comprise a sampling of CDO structures as well as NTD. Product Control then prices these structures and submits bids and offers for the different tranches by maturity as well as NTD basket by maturity. Markit then provides a consensus bid / offer and a correlation, which is then used to corroborate internal correlations set in SDAPS.

Completeness of data

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- Independent Pricing feeds are reviewed for integrity in relation to the desk marks and other sources.
- **Recovery Rate Testing**
Recovery rates are tested as a pricing input similar to single name Credit spreads.
The current procedure involves the following steps:
 - Gather the curve and recovery rate data from SDAPS.
 - Gather curve and recovery rate data from Lombard Risk and Markit Partners.
 - Match SDAPS data with external sources to arrive at a difference.
 - Use SDAPS +/- 10% recovery rate bumps to calculate the projected P&L impact of changing recovery rates.
 - These results are then broken out by both region and book. Significant differences are discussed with the trading desk and a summary sheet is included in the monthly Price Testing report to desk. For issuers where external data is not available, a proxy is used. A very small percentage the overall recovery risk is left untested if PCG PT lacks coherent data to justify utilizing the below grid.
 - The recovery rates used in FI Credit follow the policy set by GFRM.

StructureID	StructureName	StructureAbbrev	CorpSovFlag	DefaultRecovery	CSOStructureMap
0	N/A	N/A	1	0%	Senior
1	Senior Secured	SenSec	1	60%	Senior
2	Senior Unsecured	SenUn	1	40%	Senior
3	Senior Subordinated	SenSub	1	20%	Subordinated
4	Subordinated	Sub	1	15%	Subordinated
5	Preferred	Pref	1	20%	Senior
6	Brady	Brad	2	20%	Senior
7	Eurobond	Euro	2	20%	Senior
8	Other 1	Other 1	2	20%	Senior
9	Other 2	Other 2	2	20%	Senior
10	Other 3	Other 3	2	20%	Senior
11	Loss Piece 1	LP1	3	20%	Senior
12	Loss Piece 2	LP2	3	20%	Senior
13	Loss Piece 3	LP3	3	20%	Senior
14	Emerging Corporate	EM-Corp	2	25%	Senior
15	Emerging Sovereign	EM-Sov	2	20%	Senior
16	Tier 1	Tier 1	1	0%	Subordinate

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These rates are periodically reviewed by GFRM and PCG.

The hierarchy can be retrieved from SDAPS Report Generator:

(Risk ---> Credit Risk ---> Summary ---> "TierWeightings" tab)

Price Testing Methodology

<i>Procedure: All Corporate, Emerging Markets and Sovereign CDS's and Bonds. This procedure is also applicable for Loans and Cash ABS.</i>	Responsibility	Timing
<p>Internal Source: SDAPS Notional, internal price and spread, DV01's from SDAPS</p> <p><u>Price Testing</u></p> <p>Risky Bond Inventory Trace or Exchange Prices are the first means used for testing. If unavailable, internal prices will be compared to the average of all external sources. External prices that are outliers are excluded from the computation of the external average price.</p> <p>Credit Default Swaps Default swap spreads are sourced from the various consensus services, other broker dealers and inter broker dealers such as GFI etc and recent trade levels.</p> <p>Variance The variance (p/l impact) is generated by multiplying the price/spread differential (external minus internal) by the respective notional for bonds and Spd-01s for CDSs. Overall variances for each trading book are viewed in conjunction with the level of Credit risk in that book. All variances over 500k will be discussed with the desk and are reported in the monthly pricing package as part of the variance breakdown.</p> <p>Non tested Positions Determine the last date in which the position was tested. Pricing obtained within the quarter will be used unless substantial changes in market conditions have occurred. If by the end of the quarter there are no observable market levels, a reserve</p>	PC	Monthly

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will be considered.		
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<i>Procedure: Credit Linked Notes</i>	Responsibility	Timing
Internal Source: SDAPS Notional, internal prices and spreads in SDAPS. Price Testing Same methodology as default swaps.	PC	Monthly

<i>Procedure: Full Index Trades</i>	Responsibility	Timing
Internal Source: SDAPS Notional, internal price, and spreads from SDAPS. Price Testing Index levels are sourced from various vendors including Markit and price tested using the same methodology as default swaps	PC	Monthly

<i>Procedure: Tranche Index Trades</i>	Responsibility	Timing
Internal Source: SDAPS Notional, internal price, spreads and correlations from the PCDS module in SDAPS. Price Testing: (a.) Tranche positions are delta tested using the same methodology as the Index Trades. (b) For Correlation testing, Quotes for the tranches are sourced directly from broker quotes (observable in the market). These quotes are loaded into the CDA (Credit Derivatives	PC	Monthly

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Analytics) spreadsheets to create the correlation surfaces for pricing and risk calculations.		
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<i>Procedure: Options</i>	Responsibility	Timing
<p>Internal Source: SDAPS Notional, strikes, and underlying asset prices.</p> <p>Price Testing Single name and index options are tested using consensus pricing services as well as Bloomberg. Bond options are tested using external prices for the underlying asset and Bloomberg's option valuation calculator.</p>	PC	Monthly

<i>Procedure: Nth to Default Baskets</i>	Responsibility	Timing
<p>Internal Source: SDAPS Notional, internal price, spreads, and correlations from SDAPS.</p> <p>Price Testing Credit spreads on the underlying constituents of the portfolio in an Nth to Default Basket are price tested using the same methodology for single name CDSs. Correlations are set by the desk and are agreed upon with GFRM. For FI Credit, they are periodically reviewed by GFRM and PCG. For EM, select NTDs are periodically tested utilizing the EMA (Emerging Market Analytics) tool kit.</p>	PC	Monthly

	Responsibility	
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<i>Procedure: Correlations for CSOs and CSO^2s</i>	ility	Timing
<p>Internal Source: SDAPS Bucketed Corr01 and associated information such as underlying correlation curves from SDAPS.</p> <p>Price Testing</p> <p>There are three major steps. 1. Collect tranche premium broker data either through desk or directly from sources (GFIInet, Icap, CreditEx), make delta adjustments in index levels. 2. Calibrate correlation curves based on the adjusted market data and compare with the corresponding internal curves. 3. Calculate variance based on correlation difference and corr01 at the trade level, and report at aggregated level by underlying or by book or combined.</p>	PC	Monthly

<i>Procedure: Collateralised Synthetic Obligations (CSOs and CSO^2s)</i>	Responsibility	Timing
<p>Internal Source: SDAPS Notional, internal price, spreads, and correlations from the PCDS module in SDAPS.</p> <p>Price Testing</p> <p>(a) Delta - Credit spreads on the constituents are delta tested using the same as single name spreads. (b) For Correlation testing, Quotes for the tranches are sourced directly from broker quotes (observable in the market). These quotes are loaded into the CDA (Credit Derivatives Analytics) spreadsheets to create the correlation surfaces for pricing and risk calculations. The difference between the consensus correlation results based on external pricing and those in SDAPS, is multiplied by the correlation sensitivity to arrive at a valuation difference.</p>	PC	Monthly

<i>Procedure: Negative Basis Trades</i>	Responsibility	Timing
Internal Source: SDAPS		

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Notional, internal price and spread from SDAPS.	PC	Monthly
Price Testing		
Prices on CDOs or ABS assets held are priced by external sources such as Merrill Lynch, Wachovia etc.		

<i>Procedure: Total Return Swaps (TRS)</i>
<i>Internal Source: SDAPS & Tundra Database -> FO Spreadsheets</i>
Bond Notional and Cash/Synthetic NPVs from SDAPS and Trade level Notional and Bond Price from FO Spreadsheet.
Price Testing
Loan and Bond Cash Prices are sourced from LoanX (MarkIt Partners) and SMi (LPC). The P/L impact is generated by multiplying the price differential (external minus internal) by the respective notional (cash/synthetic). All variances over 500k will be discussed with the desk and are reported.

<i>Procedure: ABX.HE Index and Tranche Trades</i>	<i>Responsibility</i>	<i>Timing</i>
<i>Internal Source: SABS Database</i>	<i>PC</i>	<i>Monthly</i>
Notional and internal price from SABS.		
Price Testing		
Index and tranche levels are sourced from Markit Partners. The P/L impact is generated by multiplying the price differential (external minus internal) by the respective notional for Index. All variances over 500k will be discussed with the desk and are reported.		
<i>Procedure: ABCDS (PAUG)</i>	<i>Responsibility</i>	<i>Timing</i>

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<p>Internal Source: SABS Database</p> <p>Notional, internal spreads and deal assumptions (prepay, default and severity) from SABS.</p> <p>Price Testing</p> <p>For ABCDS, valuations are performed by comparing to external broker/dealer prices. Sources include Markit Partners, FTID, Street Software (Bear Stearns), EJV and Bloomberg. . When a cash price is not available, a cash flow analysis is performed utilizing Intex. Cash flow analysis requires spread, prepayment speed, default and severity as inputs. The P/L impact is generated by multiplying the price differential (external minus internal) by the respective current notional divided by 100. For ABX.HE, Markit Partners provides levels. All variances over 500k will be discussed with the desk and are reported.</p>	PC	Monthly
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3.1 Resolution and Reporting of differences

Follow-up of Pricing Issues

Monthly Pricing Discussions: Each month PCG and the desk will discuss the net price testing differences over 500k, special situation positions and the open item list.

Each trading region is sent a monthly report that contains a summary, curve level detail, bond testing and index positions for the desk's review. In cases where the desk agrees with PCG, the curves are remarked to more current levels. Otherwise the desk must produce further evidence of their levels. This may be in the form of broker quotes or executed trades. Price Testing will then present overall results to business heads for sign-off. At this point, business heads can determine if additional reserves are required.

After discussions with the desks and appropriate business heads, Price Testing has a monthly meeting with the heads of Risk Management, Product Control, and regional CFO. Business level variances are presented along with material pricing discrepancies over 500k arising from the monthly price testing.

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The Global Finance Pricing Review report will include the following:

- Summary of the coverage by asset type and region. The coverage will be measured by Notional, NPV (face value) and if applicable, risk.
- Details of top 5 variances over 500k
- Analysis of spread differences
- Untested items are reported at the Business Area level and Business Unit level
- Commentary regarding post month-end remarks and resolutions

Based on the results of the pricing pack, the committee can decide to make adjustments. Any action plans brought up in the meeting are included in the meeting minutes and distributed to attendees.

In addition to the above meeting, a separate meeting is also performed at the request of Eric Bommensath whereby a deep dive is done on a specific business unit on a monthly basis unless Eric is otherwise detained.

EXHIBIT 2

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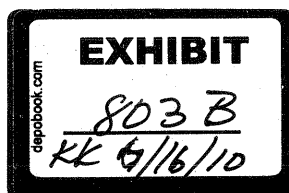
GLOBAL FINANCING CREDIT PRODUCTS

Price Testing Policy

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Version History

1.	May 2005	Reviewed and updated	Deepak Perianayagam
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Introduction

Price Testing and Verification

The purpose of this document is to outline the methodology used in verifying the levels that the Front Office uses in marking to market its positions credit products. This document is written with the assumption that the front office adheres to the firm valuations policy as set forth by compliance. This policy covers Global Credit Derivatives, Loan and Securitized Products (ABS).

Global Credit Derivatives

The Global Credit Derivatives Desk (GCD) acts as a market maker in single-name credit default swaps and index products by providing two-way liquidity in the underlying markets through bids and offers. In its structuring capacity, GCD provides more complex credit products to counterparties to either effectively manage their credit risk in their portfolios or to express views on traded credit risk in the market. GCD hedges its exposures either through the flow desks or other structured products. The business is located in 5 offices - New York, London, Hong Kong, Tokyo and Singapore - and offers all of these products globally.

Global Credit Derivatives - Products	
Single Name Credit Default Swaps (CDS)	All Locations
Index Products	All Locations
Nth to Default Baskets	All Locations
Options on Bonds, Default Swaps and Indices	All Locations
Collateralized Swap Obligations (CSO and CSO ² s)	All Locations
Negative Basis / Relative Value transactions	All Locations
Total Return Swaps	All Locations
Credit Linked Notes	All Locations
Risky Bonds	All Locations
Tranching Index Products	All Locations
Interest rate products used to manage GCD's exposure to interest rate and currency exposures (e.g. Interest Rate Swaps, Currency Swaps, Treasuries, and Futures)	All Locations

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Loans

The Loan Trading Desk acts as a proprietary trading desk for both Leveraged and Stressed Loans. These businesses are located in New York. Barclays also has TRS Loan/Bond businesses located in NY and London as well as Loans held by the CDO desk for securitization.

Loan - Products	
Total Return Swaps	NY and London
Leveraged Loan Trading	New York
Stressed Loan Trading	New York
CLO - Securitization	NY and London

Asset Back Securities

The ABS Desk (Asset Back Securities) acts as a market maker in Cash ABS, single name ABCDS products [originally referred to as Pay-As-You-Go Products (PAUG)] and ABX index products by providing two-way liquidity in the underlying markets through bids and offers. Secondary ABS also takes proprietary positions in these markets to express its views on the traded credits.

The CDO Desk warehouses ABS products which are used as collateral for securitized products. In its structuring capacity, CDO Desk provides more complex ABS credit products to counterparties to either effectively manage their credit risk in their portfolios or to express views on traded credit risk in the market. Over the second half of 2007, liquidity was drastically reduced and the desk was left holding numerous Structured ABS products on the books. The portfolio consists of Cash and Synthetic ABS products, ABS CDO tranches, SIV-Lite positions, as well as ABX Indices utilized for hedging.

ABS - Products	
Single Name ABS (Cash ABS)	New York
Single Name ABS Synthetic (ABCDS)	New York
Index Products (ABX)	New York
ABS CDO (Cash/Synthetic/Hybrid)	NY and London
ABX Index Tranche (TABX)	New York

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Credit Product Overview

Single Name Credit Default Swaps

Single name CDS are used to buy or sell default protection on single reference entity, typically a corporate entity. These products are traded at various tenors for a significant number of credits. The bid - offer spread on these credits is an appropriate measure of liquidity under normal market conditions.

Credit Linked Notes

CLNs are collateralized default swaps, whereby the buyer of protection receives the notional of the trade upfront at inception and pays a periodic coupon to the seller. If a default occurs, the buyer returns the recovery (market price of the underlying security post-default) to the seller. CLNs are price tested using the same methodology as CDS.

Full Index Products

GCD also makes markets in a family of indices consisting of baskets of abs, corporate and emerging market credits segregated by industry sector. These are price tested at the index level using external quotes.

Tranched Index Products

These products allow investors to take views on set tranches of existing Full Indices. Buyers of protection are insulated from losses due to defaults until a specified threshold is reached.

Options

GCD makes markets on options on bonds, single name default swaps and credit indices. Unlike single-name and index options that have set expiry dates on IMM roll dates, bond option expiry dates are decided upon by the buyer and seller.

Nth-to-Default Basket Swaps

The basket default swap model will be used to value Nth-to-default basket swaps (NTDs hereafter). In NTD products two parties agree on a basket of reference assets on which protection is either bought or sold. NTDs insulate the protection buyer from losses experienced on the Nth to default asset in the basket. The protection seller is exposed to losses only when N defaults occur in the basket and not earlier. The NTD is extinguished when the protection seller settles the default losses experienced by the buyer, if any, in the basket. For example, in a First to Default basket, the protection buyer is protected

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from the losses on the 1st reference credit that defaults in the basket. The NTD is then settled and extinguished. The protection buyer, in return for the protection purchased, pays a periodic premium to the protection seller on specified dates until the earlier of maturity date or the extinguishment date of the contract.

NTD products are a convenient way to buy or sell leveraged exposure to credits included in the basket. Typically, investment grade corporates are most commonly traded in NTD baskets. Investors in these products seek to express their views not just on the performance of credits included in the baskets but also on default correlation among the reference entities.

Collateralized Synthetic Obligations (CSO)

The CSO model will be used to value partial capital structure credit derivative trades. Unlike a single name CDS trade, in partial capital structure trades the protection seller agrees to insulate the protection buyer for losses arising from a pool of reference credits only when they exceed a threshold amount X. This threshold is the lower attachment point in the portfolio. The seller's losses are capped by an upper threshold Y. In effect, the buyer of protection is protected from Y-X amount of losses arising from the portfolio. These contracts have a specified maturity and the protection buyer is required to pay the seller periodic premiums for protection purchased. Unlike NTDs, CSOs insulate the protection buyer for losses incurred between specified threshold limits and are not related to the number of defaults in the reference portfolio. In essence, the buyer is protected either partially or fully on losses incurred in the portfolio regardless of the number of defaults depending on the location of thresholds.

CSOs typically include a broader pool of assets in the portfolio and could include a variety of corporate credits and asset-backed-securities. Key valuation parameters required to value CSOs are credit spreads of reference entities, recovery rates, and default correlations.

Collateralized Synthetic Obligations (CSO²)

CSO²s (the parent or master) are a special case of CSOs, where the underlying reference credits themselves are CSOs, referred to as baby CSOs. Each embedded baby CSO has a number of reference credits and some of these credits could be present in more than one baby CSO. The premium is paid on the parent CSO² and not on the babies. For the embedded CSOs, the losses within the protection tranches contribute to the cumulative loss of the parent CSO².

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Relative Value / Negative Basis Trades

Relative value transactions are largely motivated by differences in funding costs to execute a trade. In these transactions, the counterparty with a lower funding cost buys a cash asset (e.g. corporate bond, ABS, etc) and buys protection from the other counterparty until the asset matures. The carry generated by selling protection in the derivatives markets allows the seller of protection to achieve a synthetic long position in the asset at a cheaper funding rate than when the protection seller buys the asset directly from the cash markets. The protection buyer, on the other hand, earns a fraction of the carry generated by the difference in the asset coupons net of own funding costs and the premium paid to buy protection from the seller. The protection buyer does not carry the credit risk on the asset in an economic sense since the buyer is protected either through price and / or rating downgrade triggers that enable the buyer to make collateral calls on the seller but is exposed to its own funding risks and the risk of prepayment on the asset that would erode the magnitude of the basis.

Key valuations issues relate to asset downgrade risk, prepayment risk, funding risk, and counterparty exposure. The details of these risks and how they are addressed in valuation are more fully described in the GCD Provision Methodology document.

Total Return Swaps

The Total Return Swaps represents little to no balance sheet risk. These are fully hedged Loan or corporate bonds where the risk is transferred to the counterparty. Price Testing reconciles marks to third party vendors to minimize counterparty risk.

LOAN Product Overview

Leveraged and Stressed Loans

The Loan Trading consists of two books, Leveraged Loan and Stress Loans. To date the portfolio primarily consists of investments in Term Loans.

CLO

Barclays also has loans in the Warehouse portfolios for securitization purposes (CLO). These are tested to highlight potential losses. If loans are not incorporated into a Warehouse, they will be captured within the price testing of the workout facility.

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ABS Product Overview

ABS Bonds

Asset-backed securities are bonds that are based on underlying pools of assets of similar types, duration and interest rates. ABS bonds general reference RMBS, CMO, Home Equity or Sub-prime Mortgages. The key data inputs that drive that valuation of ABS are spreads at the relevant weighted average life, prepayment speed, default rate and recovery rate.

Single Synthetic ABS – ABCDS

Synthetic ABS securities, originally referred to as Pay as you Go (PAUG) are now more commonly called ABCDS. An ABCDS is a credit default swap on an RMBS bond, where the buyer pays periodic premium to the seller; in return the buyer receives principal shortfall and interest shortfall from the seller. The notional amount of the contract is adjusted as the underlying (1) amortizes, (2) prepays, (3) is written down, (4) defaults, or (5) as previous floating amount events are “reversed.” So instead of one contingent payment triggered by a credit event, the ABCDS format involves two way payments throughout the life of the CDS contract. Therefore, these trigger events (“floating amount events”) may be reversed in subsequent periods.

The ABCDS product is currently concentrated in the Home Equity Loan market. Trading ABCDS allows a trader to take directions on specific tranches and express an opinion on credit fundamentals in a particular ABS sector. It also allows traders to source tranches not readily available in the cash market.

ABCDs predominantly reference floating rate paper so it is therefore priced at spread over Libor +/- the CDS Basis. The key data inputs that drive that valuation of Synthetic ABS are spreads at the relevant weighted average life, prepayment speed, default rate and recovery rate.

ABS Index Products (ABX)

The ABX.HE is an ABS CDS Index. It is designed to mirror the risk profile of the HEL ABS, but on a portfolio level. It allows investors the ability to express a macro view on the housing market as well as hedge systematic risk. MarkIt provides end of day closing prices for the indices.

ABS CDO

ABS CDO is a structured credit derivative giving exposure to a pool of underlying reference credits (Cash/Synthetic/Hybrids) via a series of tranches with different credit risk. ABS CDO Price Testing is based on the underlying collateral.

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Tranched ABX Index Products

These products allow investors to take views on set tranches of the existing ABX Indices. Buyers of protection are insulated from losses due to defaults until a specified threshold is reached. Index trading is less active which has left this product highly illiquid.

Price Testing

Overview

Data used for verification can be classified as follows:

■ Internal prices and rates

Yield curves and FX rates for the products for which the Global Credit Derivatives business and Securitized Products area are mandated to trade are sourced from market data environments for which the Interest Rate Derivatives desk sets on a daily basis. The desk is also mandated to trade Treasuries for which pricing information is also controlled by the IRD Product Control group.

Derivative Products

Trader prices for Credit Derivative products are price tested by the following:

- Delta Price Testing: The difference between the traders' and external spreads are applied to the risk grids (DV01) to measure the impact on the books.

	Portfolio		Issuer				Asset Sector	
	Corporate Asia		Hutchinson Whampoa Finance				Telecommunications	
<i>Tenor</i>	6-month	1-yr	2-yr	3-yr	4-yr	5-yr	7-yr	10-yr
<i>Sprd-'01</i>	0	(1)	(2)	(5)	(6)	266	6756	0
<i>GCD Spreads</i>	32	40	55	70	85	102	120	150
<i>External Spreads</i>	30	38	54	70	85	99	125	155
<i>Difference</i>	(2)	(2)	(1)	0	0	(3)	5	5
<i>P&L Impact</i>	0	2	2	0	0	(798)	33,780	0

- This methodology covers the following products: CDS, CLN, and underlying for Options, FTD and CSO products.

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Product Specific Testing

CDS/CLN

- The key data inputs that drive that valuation of CDS are credit spreads at the relevant tenors, recovery rates (see Recovery Rate Testing) and yield curves (see Internal prices and rates).

NTD

- Key valuation parameters required to value NTDs are credit spreads of reference entities, recovery rates and default correlations (pair wise or flat).

Synthetic Options

- For CDS Options and Index Options, price testing is performed on the spread DV01 (same as above) as well as Vega. The external source data for both components are taken from MarkIt Partners. The data that is provided by MarkIt is a consensus pricing. Barcap provides MarkIt with the desk's spread and vega marks and they in turn provide us with consensus levels which are used to determine variances based on spread and vega.

Corporate Index Tranches and CSO Products

- For Index Tranche pricing, internal tranche spreads are compared to external broker prices or MarkIt consensus pricing. Depending on timing (stale) and depth of contributors, interpolation may also be utilized. The difference between the trader's spreads and external spreads are applied to the credit risk (CS01) to calculate variances.
- Correlation is tested based on the calibrated correlation derived from quoted Index tranche levels sent by the brokers. Correlation variance is calculated on the difference between internal/external correlation applied to the correlation risk (Cor01) at both attach and detach points. Broker sources include GFI, CreditTrade and Creditex. Barclays also participates in the consensus pricing services offered by Markit Partners.

Cash Securities

- For Corporate, Emerging Markets and Sovereign cash securities the valuations are performed by comparing to external broker/dealer prices as well as 3rd party independent pricing services. Sources include Markit Partners, Valuspread (Lombard), EJV (Reuters), ISMA and (in some cases) FTID.
- For ABS cash securities the valuations are performed by comparing to external broker/dealer prices. Sources include Markit Partners, FTID, Street Software (Bear Stearns) and Bloomberg. . When a cash price is not available, a cash flow analysis

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is performed utilizing Intex. Cash flow analysis requires spread, prepayment speed, default and severity as inputs. Generic spread levels from Bloomberg are based on a tranche's weighted average life (WAL). Specific deal assumptions such as historic CPR, CDR and severity are extracted from Intex. Unobserved or missing parameters are estimated using proxies or comparison to similar issues that are that have been obtained.

Synthetic ABS

- For ABCDS, valuations are performed by comparison to 3rd party consensus data as well as external broker/dealer spreads. Consensus data comes from both Markit Partners and Fitch. In cases where consensus data is unavailable, proxy testing is performed. Lastly, cash securities valuations can also be inserted into SABS to calculate the discount margin and then a basis (cash/synthetic) can be applied to the DM to back into a CDS level. For ABX.HE, Markit Partners provides levels.

Loan Securities (HY / IG / TRS)

- For Loans the valuations are performed by comparing cash prices to external third party pricing vendors. Sources include Loan X (Markit) and SMI (LPC).
- If no external pricing data is available, a proxy based on industry, maturity, yield, rating and seniority may be applied.

Sources of Information

The following are the sources used to obtain spreads and other relevant information such as correlations, recoveries, bond prices.

Securitized Derivative Asset Pricing System (SDAPS) is GCD's internal risk and valuation system. SDAPS houses all CDS inventories as well as market and trade data used in pricing and calculating risk for GCD products. SDAPS holds a portion of the Bond position but as of December 2007, a majority have been moved over to CDT.

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Internal Data

- SDAPS Credit Derivatives and BOND inventory reports
For each respective business area a complete CDS and Bond Inventory report is run at month end for position review and verification.
- CDT BOND inventory reports
A CDT Flat file of the complete Inventory is automatically saved on a daily basis for each respective business area.
- SDAPS Sprd-01
Are used as a basis for calculating Sprd-01 variances on underlying Synthetic and cash positions within the groups portfolios.
- SDAPS Spiky Report Cor-01
The spiky report is used for Global Credit Indices and CSO correlation testing. The trade level details are used to capture region, book, correlation and Cor01 mapped to each credit index
- SABS
For single name synthetic ABS and ABX Index, all internal data is captured in / extracted from SABS. The SABS database is used to house all internal information for the product.
- FOBO: Non-GCD and CDO NY / CDO LDN
For Non-GCD Books PCG Line proves PCG Price Testing a complete Front-Office-Back-Office reconciliation spreadsheet which is utilized to test the position and prices held on the firms books and records.

Completeness of data

- GCD – The Price Testing Database is reconciled back to SDAPs to ensure completeness as well as to Glacier.
- GCD Correlation, GCD Vega and GCD Index Tranche Delta Price Testing are reconciled and tested in a separate spreadsheets.
- Risk Finance positions and CS01 are reconciled back to SDAPs. The SDAPs data in the Price Testing spreadsheets is separately reconciled to the ledger via the operations and PCG FOBO processes.

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External Sources

○ **Risky Bond Positions.**

- Sources include Markit Partners, FTID, Bloomberg, EJV (Reuters) and ISMA.
- Broker/Dealer quotes

○ **Spread information (Synthetics only)**

- Valuspread (Lombard)
- Mark-It Partners
- CMA (Parsed Dealer Runs)
- Intra Dealer Brokers (GFI, Chapadelaine)
- Other Broker Dealers (JPMorganChase)

In determining the appropriate spread information used to value and risks the GCD portfolios, currency and restructuring clause types are taken into account.

○ **Correlation Testing**

- Tranche correlation is tested using Markit Partners and broker quotes as well as interpolation where no outside data is available. Broker sources include GFI, CreditTrade and Creditex. Barclays also participates in the consensus pricing services offered by Markit Partners. Preference is to use broker data as it is a true month-end close. Markit data for correlation is captured prior to month-end. This can result in stale pricing if the market is volatile.
- NTD correlation is reviewed using broker quotes as well as Markit data.
- Markit sends several templates with various combinations of underlying single name issuers and their respective spread curves that comprise a sampling of CDO structures as well as NTD. Product Control then prices these structures and submits bids and offers for the different tranches by maturity as well as NTD basket by maturity. Markit then provides a consensus bid / offer and a correlation, which is then used to corroborate internal correlations set in SDAPS.

Completeness of data

- Independent Pricing feeds are reviewed for integrity in relation to the desk marks and other sources.

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○ Recovery Rate Testing

Recovery rates are tested as a pricing input similar to single name credit spreads.

The current procedure involves the following steps:

- Gather the curve and recovery rate data from SDAPS.
- Gather curve and recovery rate data from Lombard Risk and Markit Partners.
- Match SDAPS data with external sources to arrive at a difference.
- Use SDAPS +/- 10% recovery rate bumps to calculate the projected P&L impact of changing recovery rates.
- These results are then broken out by both region and book. Significant differences are discussed with the trading desk and a summary sheet is included in the monthly Price Testing report to desk. For issuers where external data is not available, a proxy is used. A very small percentage the overall recovery risk is left untested if PCG PT lacks coherent data to justify utilizing the below grid.
- The recovery rates used in GCD follow the policy set by GFRM.

StructureID	StructureName	StructureAbbrev	CorpSovFlag	DefaultRecovery	CSOStructureMap
0	N/A	N/A	1	0%	Senior
1	Senior Secured	SenSec	1	60%	Senior
2	Senior Unsecured	SenUn	1	40%	Senior
3	Senior Subordinated	SenSub	1	20%	Subordinated
4	Subordinated	Sub	1	15%	Subordinated
5	Preferred	Pref	1	20%	Senior
6	Brady	Brad	2	20%	Senior
7	Eurobond	Euro	2	20%	Senior
8	Other 1	Other 1	2	20%	Senior
9	Other 2	Other 2	2	20%	Senior
10	Other 3	Other 3	2	20%	Senior
11	Loss Piece 1	LP1	3	20%	Senior
12	Loss Piece 2	LP2	3	20%	Senior
13	Loss Piece 3	LP3	3	20%	Senior
14	Emerging Corporate	EM-Corp	2	25%	Senior
15	Emerging Sovereign	EM-Sov	2	20%	Senior
16	Tier 1	Tier 1	1	0%	Subordinate

These rates are periodically reviewed by GFRM and PCG.

The hierarchy can be retrieved from SDAPS Report Generator:

(Risk ---> Credit Risk ---> Summary ---> "TierWeightings" tab)

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Price Testing Methodology

<p><i>Procedure: All Corporate, Emerging Markets and Sovereign CDS's and Bonds. This procedure is also applicable for Loans and Cash ABS.</i></p>	Responsibility	Timing
<p>Internal Source: SDAPS Notional, internal price and spread, DV01's from SDAPS</p> <p><u>Price Testing</u></p> <p>Risky Bond Inventory Trace or Exchange Prices are the first means used for testing. If unavailable, internal prices will be compared to the average of all external sources. External prices that are outliers are excluded from the computation of the external average price.</p> <p>Credit Default Swaps Default swap spreads are sourced from the various consensus services, other broker dealers and inter broker dealers such as GFI etc and recent trade levels.</p> <p>Variance The variance (p/l impact) is generated by multiplying the price/spread differential (external minus internal) by the respective notional for bonds and Spd-01s for CDSs. Overall variances for each trading book are viewed in conjunction with the level of credit risk in that book. All variances over 250K will be discussed with the desk and are reported in the monthly pricing package as part of the variance breakdown.</p> <p>Non tested Positions Determine the last date in which the position was tested. Pricing obtained within the quarter will be used unless substantial changes in market conditions have occurred. If by the end of the quarter there are no observable market levels, a reserve will be considered.</p>	PC	Monthly

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<i>Procedure: Credit Linked Notes</i>	Responsibility	Timing
Internal Source: SDAPS Notional, internal prices and spreads in SDAPS. Price Testing Same methodology as default swaps.	PC	Monthly

<i>Procedure: Full Index Trades</i>	Responsibility	Timing
Internal Source: SDAPS Notional, internal price, and spreads from SDAPS. Price Testing Index levels are sourced from various vendors including Markit and price tested using the same methodology as default swaps	PC	Monthly

<i>Procedure: Tranched Index Trades</i>	Responsibility	Timing
Internal Source: SDAPS Notional, internal price, spreads and correlations from the PCDS module in SDAPS. Price Testing: (a.) Tranche positions are delta tested using the same methodology as the Index Trades. (b) For Correlation testing, Quotes for the tranches are sourced directly from broker quotes (observable in the market). These quotes are loaded into the CDA (Credit Derivatives Analytics) spreadsheets to create the correlation surfaces for pricing and risk calculations.	PC	Monthly

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<i>Procedure: Options</i>	Responsibility	Timing
<p>Internal Source: SDAPS Notional, strikes, and underlying asset prices.</p> <p>Price Testing Single name and index options are tested using consensus pricing services as well as Bloomberg. Bond options are tested using external prices for the underlying asset and Bloomberg's option valuation calculator.</p>	PC	Monthly

<i>Procedure: Nth to Default Baskets</i>	Responsibility	Timing
<p>Internal Source: SDAPS Notional, internal price, spreads, and correlations from SDAPS.</p> <p>Price Testing Credit spreads on the underlying constituents of the portfolio in an Nth to Default Basket are price tested using the same methodology for single name CDSs. Correlations are set by the desk and are agreed upon with GFRM. For GCD, they are periodically reviewed by GFRM and PCG. For EM, select NTDs are periodically tested utilizing the EMA (Emerging Market Analytics) tool kit.</p>	PC	Monthly

<i>Procedure: Collateralised Synthetic Obligations (CSOs and CSO^2s)</i>	Responsibility	Timing
<p>Internal Source: SDAPS Notional, internal price, spreads, and correlations from the PCDS module in SDAPS.</p>	PC	Monthly

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<p>Price Testing</p> <p>(a) Delta - Credit spreads on the constituents are delta tested using the same as single name spreads. (b) For Correlation testing, Quotes for the tranches are sourced directly from broker quotes (observable in the market). These quotes are loaded into the CDA (Credit Derivatives Analytics) spreadsheets to create the correlation surfaces for pricing and risk calculations. The difference between the consensus correlation results based on external pricing and those in SDAPS, is multiplied by the correlation sensitivity to arrive at a valuation difference.</p>		
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<i>Procedure: Negative Basis Trades</i>	Responsibility	Timing
<p>Internal Source: SDAPS Notional, internal price and spread from SDAPS.</p> <p>Price Testing Prices on CDOs or ABS assets held are priced by external sources such as Merrill Lynch, Wachovia etc.</p>	PC	Monthly

<p>Procedure: Total Return Swaps (TRS)</p> <p>Internal Source: SDAPS & Tundra Database -> FO Spreadsheets</p> <p>Bond Notional and Cash/Synthetic NPVs from SDAPS and Trade level Notional and Bond Price from FO Spreadsheet.</p> <p>Price Testing</p> <p>Loan and Bond Cash Prices are sourced from LoanX (MarkIt Partners) and SMi (LPC). The P/L impact is generated by multiplying the price differential (external minus internal) by the respective notional (cash/synthetic). All variances over 250K will be discussed with the desk and are reported.</p>

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<i>Procedure: ABX.HE Index and Tranche Trades</i>	<i>Responsibility</i>	<i>Timing</i>
<p>Internal Source: SABS Database</p> <p>Notional and internal price from SABS.</p> <p>Price Testing</p> <p>Index and tranche levels are sourced from Markit Partners. The P/L impact is generated by multiplying the price differential (external minus internal) by the respective notional for Index. All variances over 250K will be discussed with the desk and are reported.</p>	PC	Monthly
<i>Procedure: ABCDS (PAUG)</i>	<i>Responsibility</i>	<i>Timing</i>
<p>Internal Source: SABS Database</p> <p>Notional, internal spreads and deal assumptions (prepay, default and severity) from SABS.</p> <p>Price Testing</p> <p>ABCDS Spread levels are sourced from Fitch and Markit Partners. Both firms provide 3rd Party independent consensus pricing from the dealer community. If external consensus data is unavailable, a proxy based on similarly seasoned credit based on Fitch research is utilized. The P/L impact is generated by multiplying the spread differential (external minus internal) by the respective CS01 for ABCDS. All variances over 250K will be discussed with the desk and are reported.</p>	PC	Monthly

- 2.1

- GCD - Correlation

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3.1 Resolution and Reporting of differences

Follow-up of Pricing Issues

Monthly Pricing Discussions: Each month PCG and the desk will discuss the net price testing differences over 250k, special situation positions and the open item list.

Each trading region is sent a monthly report that contains a summary, curve level detail, bond testing and index positions for the desk's review. In cases where the desk agrees with PCG, the curves are remarked to more current levels. Otherwise the desk must produce further evidence of their levels. This may be in the form of broker quotes or executed trades. Price Testing will then present overall results to business heads for sign-off. At this point, business heads can determine if additional reserves are required.

After discussions with the desks and appropriate business heads, Price Testing has a monthly meeting with the heads of Risk Management, Product Control, and regional CFO. Business level variances are presented along with material pricing discrepancies over 250k arising from the monthly price testing.

The Global Finance Pricing Review report will include the following:

- Summary of the coverage by asset type and region. The coverage will be measured by Notional, NPV (face value) and if applicable, risk.
- Details of top 5 variances over 250k
- Analysis of spread differences
- Untested items are reported at the Business Area level and Business Unit level
- Commentary regarding post month-end remarks and resolutions

Based on the results of the pricing pack, the committee can decide to make adjustments. Any action plans brought up in the meeting are included in the meeting minutes and distributed to attendees.

In addition to the above meeting, a separate meeting is also performed at the request of Eric Bommensath whereby a deep dive is done on a specific business unit on a monthly basis unless Eric is otherwise detained.